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POLICY MEASURES FOR DOMESTIC RESOURCES MOBILIZATION

TABLE OF CONTENTS

		Page
I.	INTRODUCTION	1
II.	THE NEEDS FOR DOMESTIC RESOURCE MOBILIZATIONS	2
III.	THE GROWTH AND PATTERN OF GROSS DOMESTIC SAVINGS IN AFRICA	4
IV.	POLICY MEASURES FOR RESOURCE MOBILIZATION IN AFRICA	7
	4.1 Public Sector's Resource Mobilization	8
	4.2 Mobilization of Household Savings	11
	4.3 Mobilization of Corporate Savings	12
	4.4 Human Resources Mobilization	12
	4.5 Financial Leakages	13
	4.6 Efficient Resource Allocation	15
V.	FEASIBILITY OF ACHIEVING 25-30 PER CENT SAVINGS RATIOS IN THE 1990s	15
VI.	CONCLUSION	19

I. INTRODUCTION

1. As is spelled out in paragraph 23 of the International Development Strategy for the Third United Nations Development Decade, "The acceleration of production in the developing countries will require that gross investment reaches the level of about 28 percent of gross domestic product by 1990. The developing countries, therefore, must fully mobilise their domestic financial resources. To this end, for developing countries in general, gross domestic saving should be increased to reach about 24 percent of gross domestic product by 1990. The developing countries that have a saving ratio of less than 15 percent should make rigorous efforts to raise it to 20 percent as early as possible. The countries that have or will soon have a saving ratio of 20 percent should raise it significantly during the Decade" 1/.

2. The Lagos Plan of Action (LPA) and the Final Act of Lagos (FAL), the African Priority Programme for Economic Recovery (APPER) and the United Nations Programme of Action for Africa's Economic Recovery and Development 1986-1990 (UN-PAAERD) have also emphasized that African countries should continue to bear the main responsibility for financing their development and should adopt vigorous measures for a fuller mobilisation of their domestic financial and physical resources 2/. A successful savings mobilisation would require a mix of complementary government policies directed towards the optimization of the saving patterns of the country and the most efficient allocation of savings to productive investment. These also entail the reduction of capital flight through a realistic, manageable exchange rate.

1/ UN, The International Development Strategy for the Third United Nations Development Decade (A/35/464), 23 October 1980, p. 6.

2/ See OAU, The Lagos Plan of Action for the Economic Development of Africa 1980-2000, ILO, Geneva, 1981; OAU, The African Priority Programme for Economic Recovery 1986-1990 (APPER), Addis Ababa, Ethiopia, 1985, and UN, The United Nations Programme of Action for African Economic Recovery and Development 1986-1990 (UN-PAAERD), May 1986, in which African countries committed themselves to mobilizing 64.4 percent of US$128.1 billion investment requirements from domestic resources.

3. This paper presents a general framework for the formulation of a range of policies for the mobilization of domestic resources and their efficient utilization. The paper outlines the importance of domestic resources mobilisation in general, reviews the savings performance in Africa during the period 1960-1988, proposes the major policy measures for increasing the mobilization of domestic resources, and examines the feasibility of realizing the saving ratio of 25 percent of GDP for Africa as a whole in the 1990s if the above proposed measures are fully implemented.

II. THE NEED FOR DOMESTIC RESOURCE MOBILIZATIONS

4. The need for domestic resource mobilisation arises directly out of the need for investment and capital formation at progressively higher levels; and until sufficient resources are mobilised by cutting down on immediate consumption, the objectives of attaining rapid economic development cannot be attained. Savings are, therefore, of paramount importance for attaining desired rates of growth. Domestic saving for investment can, of course, be potentially supplemented by external financing in the form of foreign aid, loans, direct foreign investment, etc. The experience of the last two decades shows that only in few African countries, domestic savings had financed the bulk of investment, while the majority of African countries have continued to rely heavily on external financing 3/. The inability to raise adequate revenues because of the low per capita income of the population in general, the institutional weakness in the machinery of tax collection, the misallocation of public resources between capital and recurrent budgets and the substantial operating losses of public enterprises and consequent drains on the treasury, and subsidies of various kinds have reduced the size of the domestic savings and mitigated towards heavy reliance on external sources of financing investment. But there has been a growing awareness that the continuing adverse international economic situation over the past few years has diminued prospects for the continuous reliance on increased external financial assistance at anywhere near past levels. In the real terms, such an inflow of external capital has, in fact, been declining. This suggests that the limit of the growth of output in African countries has been set by the limited rate of growth of their domestic savings and the external financing.

3/ See ADB/ECA Economic Report on Africa 1985, March 1985, pp. 13-19; and Economic Report on Africa 1987, March 1987, pp. 26-27.

5. Indeed, the volume of savings in Africa is not enough to meet high investments for self-sustained development, either because of the low level of savings in general, or because only a portion thereof becomes available for productive investment. Consequently, major bottlenecks developed in the process of capital formation and the drive for development.

6. The African countries should intensify their efforts to mobilize domestic savings from the household, business and government sectors, so as to maximize financial resources available for accelerated development. The household savings are generally derived from salaries, wages and professional fees and profits; while the business savings are derived from undistributed profits and the government savings are derived from taxation. The government objective in the achievement of a better quality of life for the population at large through a more equitable spread of the benefits of economic growth, calls for an increased government's responsibility with regard to investment, and hence to seek to generate a larger volume of public savings through taxation and the profits of public enterprises and provide an enabling environment for raising the private sector's savings.

7. The experience shows that in the majority of the African countries, government savings, defined as the excess of current revenue over current expenditure, has been insignificant if not negative. There have been persistent and significant increasses in the volume of government consumption, notwithstanding current adjustment programmes adopted and implemented by some African countries. The prevailing tax regime, itself the result of structural deficiencies, severely limits the realization of the savings potential. The financial efficiency of public enterprises presents a dismal picture in many countries, and a majority of the parastatals despite subsidies of various kinds have been incurring losses since 1980, largely due to unsatisfactory pricing policies imposed on them. These enterprises generally have a deficit rather generating a surplus and contributing to domestic savings. Indigineous private corporate savings also are insignificant because of the smallness of this sector and multinational corporate savings in some cases leak outside the continent through transfer abroad of dividends, profits, interests, etc.

8. The savings of non-corporate private sector (personal or household savings) are of crucial significance for transfer to the public and corporate sectors for investment. However, the level of current income is a significant determinant of household saving, the actual savings/income ratio being determined by attitudes towards consumption. The main issue relates not

merely to the motivation to save but the motivation to save in financial assets rather than in physical assets, such as gold, land, cattle and commodity inventories, etc. The degree of motivation to save in financial assets is interlinked with not only the extent of the spread of thrift and the banking habit, the existence of appropriate institutional infrastructure and the availability of choice of savings instruments (liquidity of funds and return on funds invested), but also with the degree of their accountability to the public.

9. The key question is whether an effective and integrated financial system for transfering and allocating resources to, and ensuring their efficient use in, sectors that are crucial for implementing the country's development strategy and programmes is already well developed or is yet to evolve. It is clear that the relative importance of all the factors that influence household savings and the weight that should be attached to them for promoting household savings for development vary from country to country, depending upon the prevailing socio-economic conditions, the country's policy and programmes and the stage of its development.

10. In general, however, the need for reliance on domestic sources for financing the bulk of development expenditures has never been as crucial as it is during the decade of the 1980s. The mobilisation of adequate financial resources has posed a serious challenge for the African governments for the implementation of investment projects and programmes in the 1980s. African countries are left with no choice but to adopt an attitude of increasing self-reliance in the decades ahead.

III. THE GROWTH AND PATTERN OF GROSS DOMESTIC SAVINGS IN AFRICA

11. One of the major challenges facing African countries today relate to capacity to generate enough resources to finance and administer their development efforts. For developing Africa, as a whole, the share of gross domestic savings (GDP - total consumption) in total GDP increased from the level of 12.4 percent in 1960 to 18.6 percent in 1980 but it declined to 17.5 percent in 1988 (see table 1).

Table 1: The Pattern of Gross Domestic Savings in Africa 1960-1988

(Percentage of GDP at constant market prices)

Geographical/Income Subgroups	1960	1970	1980	1985	1988
North Africa	12.1	21.4	16.2	16.1	16.6
West Africa	9.4	12.9	21.2	16.2	16.7
Central Africa	15.6	19.5	19.6	19.7	20.5
East and Southern Africa	14.6	15.0	17.5	14.4	15.0
Major Oil Exporters	13.5	22.5	35.1	26.5	28.7
LDCs	6.6	10.3	4.0	4.6	4.9
Others	19.0	16.0	17.4	19.3	18.7
Developing Africa	12.4	17.8	18.6	16.8	17.5
(Asia)	19.1	25.4	30.3	26.3	na
(Latin America)	19.5	21.6	22.0	22.1	na

Data Source: ECA, 25 Years of Service to African Development and Integration, Addis-Ababa (Ethiopia), 1983 Statistical Appendix; Survey of Economic and Social Conditions in Africa, Various issues from 1980 onward; ECLA, Statistical Yearbook for Latin America and the Caribbean, Various issues from 1980 onward; and UN, National Accounts Statistics; Analysis of Main Aggregates, 1985, New York, 1988.
E= Estimates
na= Not available

However, as the level of domestic savings is, in accordance with the Keynesian economic theory, mainly determined by income levels among other factors, the savings efforts in the African region vary considerably from one income group to the other. The major oil exporters, Algeria, Gabon, the Libyan Arab Jamahiriya and Nigeria, for instance, were able to raise their savings ratios from about 13.5 percent of GDP in 1960 to 35.1 percent of GDP in 1980 as a result of oil boom in the mid-1970s although such a saving level significantly declined to 23.7 percent in 1988, due to recent strides in oil prices.

12. The savings rate of the African Least Developed Countries (LDCs), after an increase from 6.6 percent in 1960 to 10.3 percent in 1970 declined to 4.0 percent in 1980 and was a mere 4.9 percent at the end of 1988. In the other countries, the savings ratios did not change significantly, declining from 19.0 percent in 1960 to 16.0 percent in 1970 and then slightly increasing to 17.4 percent in 1980 and to 18.7 percent in 1988. The crisis that was brought about by the great African drought and desertification and the deeping of the international economic recession during the mid-1980s may have caused such a stagnation or decline in the saving ratios in Africa, particularly in the African LDCs.

13. In North Africa and West Africa, where oil exporting countries like Algeria and Nigeria dwarf the other countries economically, a decline in the saving ratio was noted. Algeria, however, succeeded to sustain high saving ratio of about 35.5 percent of GDP through government controls over the oil revenues (main source of income). Excluding the four major African oil exporters, the saving rates oscillate at around 13.5 percent in the oil importing countries. The investment/savings gap as a percentage of GDP is shown in Table 2.

Table 2: Investment/Savings Gap as Percentage of GDP

Income Group	1960	1970	1975	1980	1985	1988
Major oil exporters	15.0	-5.4	18.2	13.0	2.5	2.0
Non-oil exporters	0.1	-2.9	0.4	1.8	0.5	1.7
Least Developed countries	0.0	3.0	4.7	7.6	13.5	18.3
Developing Africa	3.7	-1.8	7.1	6.6	5.5	5.5

Source: Ibid.

14. The average marginal propensity to save (MPS) for developing Africa as a whole also declined from 0.25 in the 1960s to 0.19 during the 1970s and 0.15 in 1980-1988. The non-oil-exporting countries in particular suffered a sharp decline in MPS from 0.30 between 1960-1970 to 0.06 between 1970 and 1980 and 0.05 in 1980-1988. The implications of the declining savings rates have been that the steady expansion of the domestic resource gap from 3.7 per cent of GDP in 1960 to 6.6 per cent in 1980 and 5.5 per cent in 1988. The largest expansions in the domestic resource gap were recorded in the African LDCs when both consumption and investment expanded simultaneously. This means that the majority of African countries have still continued to rely on considerable external borrowing and aid to finance their investment.

15. The deterioration of income since 1980 has affected savings in the trade-off between allocation of resources for consumption or of finance for capital formation. One of the serious problems that acts as an impediment on capital formation and development in Africa is the consumption patterns which tend to emulate those of advanced countries. This tendency does not make for saving and capital accumulation out of relatively low income. While the Keynesian contension that consumption expenditures are conducive to economic development and growth may largely be true for developed countries, the same could not be said to be true for developing African countries as there are limited and fairly inelastic production capacities. Thrift is their only option. Lack of unproximity of suitable financial and savings institutions force people particularly in the rural areas into hoardings or savings in kind, thereby limiting the size of actually financially mobilizable savings as compared to the potential.

16. An average gross domestic savings ratio of a little over 16 per cent recorded in developing Africa as a whole in 1980-1988 is very respectable by any standard, but is well below that of some other developing economies of Asia and Latin America in which gross domestic savings of a number of countries were appreciably in excess of 30 per cent of GDP throughout much of the 1970s and the 1980s. And in some of latter countries, the level of current income is similar or less than that of African countries. The level of income is but one of many variables impinging on the decision to save; GDP growth over time in another (Ratchet theories). 4/

IV. POLICY MEASURES FOR RESOURCE MOBILIZATIONS IN AFRICA

17. In a policy-making context, the investment requirements of a country that is determined to gain greater control over its own destiny has to be increasingly met from the savings of the three institutional sectors of the economy, namely the government sector, the household sector and the coorporate sector.

4/ See Duesenberry, J. S. Income, Saving and the Theory of Consumer Behavior (Cambridge, M.A. Harvard University Press 1949); M. Friedman A Theory of the Consumption Function (Princeton N.J.: Princeton University Press, 1957), and F. Modigliani and A.K. Ando, «Testes of the Life Cycle Hypothesis of Saving» Bulletin of the Oxford University Institute of Economic Statistics, 19, (1957), pp. 99-124.

4.1 Public Sector's Resources Mobilisation

18. As it was stated above, the primary responsibility for financing development programmes in Africa should be borne by the African governments themselves. The low levels of household income and the fact that large segments of African economies are non-monetarized, limit the size of actually mobilizable savings. A greater role in raising savings ratios has to fall on the public sector and the need for strengthening the public sector's savings effort should increasingly assume greater and wider significance. Policy measures to generate public sector's savings should be directed both on the revenue side and on the expenditure side.

Indirect Taxation

19. Of the various sources from which the necessary savings can be mobilized for public expenditure, taxes constitute the largest share of revenue in African countries. Tax revenue account for over 70 per cent of public revenue. Thus, raising revenues for government can be secured through increased taxation. This can be done through the introduction of new sources of taxes or the imposition of higher tariffs on luxuries.

20. Sales and excise taxes on such services as hotels, restaurants, transport, banking, insurance, construction and others which normally account for much of the value added created outside agriculture would need to be heavier. New taxes on petroleum, tobacco, alcohol, beer and luxuries in general should constitute additional sources of revenue. Other possible areas of additional taxation could result from a restructuring of import tariffs, of sales taxes and excise duties, rationalization of tax concessions to industry, of agricultural taxation, taxes on public services as well as improvements in tax administration and collection in general. Policy measures should also be directed toward reducing the excessive dependency of government revenue on foreign trade (import and export) which in most cases, fluctuate considerably, depending on the outcome of external environment.

Direct Taxation

21. Although some African countries have high marginal rates of tax on income and profits, these do not appear to result in high tax revenues because of evasion and the low tax base in general since most of tax revenues come from import and sales and excise taxes on a very limited range of consumer goods. Direct taxes on income and payroll contribute only marginally to the government revenues. Thus there is need to make the tax system simpler and more broadly based to tax not only household income but also business and property income and capital gains. In this respect, efforts have to be made to reduce tax leakages by streamlining the tax administration and by reinforcing customs departments with accountable people.

22. Forced savings charged on incomes in the form of education tax, health tax, rent tax, etc.; and elimination of subsidies on consumption except food items consumed by low-income groups are justifiable measures of economic policy for mobilizing domestic revenue. In order to make the effect of taxation on domestic resource mobilisation more prominent, tax rates should be structured in such a manner that they are highly progressive. Such taxes should be particularly heavy on unearned incomes such as wealth or property, capital gains, gifts, estates, inheritances, etc., to reduce not only consumption expenditure of high-income groups but also the degree of social inequality. Measures must be taken to convince the population of the necessity and inevitability of higher taxes on their incomes and sacrifices.

23. The tax structures prevailing in African countries are such that a disproportionately heavy burden of the tax falls on the rather small market sector of the economy as a result of which the volume of tax revenues continue to remain small. Indeed the majority of African countries, the tax ratio (as percentage of GDP) is less than 15 per cent as compared to other developing countries of Asia and Latin America for which the ratio is as high as 30 per cent. This indicates that there exists untapped tax potential in Africa and that additional revenues to finance development programmes can be generated through the introduction of new tax measures, for instance taxation of the agricultural surplus.

Non-Tax Revenue

24. The non-tax revenues derived mainly from earnings of public enterprises and revenue from government services should also be increased through such measures as increase in the fees and prices of the public sector goods and services, and the rationalisation or privatisation, where appropriate, of public and parastatal enterprises. The parastatals that are engaged in directly productive sectors should be given full autonomy to operate and generate profits like private enterprises and make them self-financing. Experiences in most African countries show that most public enterprises instead of making profits incur losses and have caused serious fiscal burdens to the government. In order to increase resources available to government, public enterprises must be reformed and their efficiency restored so that they generate rates of return that not only cover their recurrent costs, but also result in surpluses that can be mobilised with no fear of reduction in consumption expenditures.

Public Borrowing

25. Internal public borrowing from banks, business organisation and individuals or through the issuing of securities, bonds and certificates may serve as additional sources of finance that supplement revenues from taxes. Household savings, corporate and other forms of savings that may not be put to any productive use because of the lack of investment opportunities and returns could be tapped by means of public borrowing, although this will require the existence of developed capital and money markets to be an effective instrument.

Deficit Financing

26. The government deficit financing is another instrument for mobilising domestic resources if it is used more judiciously to finance directly productive ventures with short gestation periods. This method is resorted to as a residual source when revenues collected from different sources outlined above are still inadequate to finance expenditures and it involves one or more processes, such as borrowing or withdrawal of cash balances from central banks, the issuance of additional currency, etc. Funds raised through deficit financing should be spent only to mobilise idle or under-utilised resources, such as land, labour and minerals into effective use and should be used primarily for financing seasonal food and other agricultural production, the manufacturing of consumer goods like milk, sugar, drugs, book, etc. so as to increase supply and neutralise their inflationary potential. While deficit financing as a source of revenue should not be resorted to on a large scale and beyond a particular safe limit of say 3 to 10 per cent of GDP to avoid runaway inflation, it could and should be used moderately with effective price controls and with wages and salaries checked within reasonable limits.

Recurrent Expenditures

27. On the expenditure side efforts to increase revenue to finance development should be capped by a programme of austerity with efficient use and strict control of budgetary expenditure, particularly recurrent expenditure, to eliminate internal leakages in the form of wasteful expenditure. Therefore, government policy measures should endeavour to reducing operation costs, cutting back on current expenditures, streamlining enterprise management and identifying spending priorities whether for investment or consumption more efficiently. The purpose of these measures is to release more public savings for channelling into priority public productive investments. The administrative services should also be streamlined by introducing user participation in the cost of social services (particularly health services and education), by implementing measures to restrain non-essential public consumption and by limiting recurrent budget expenditures (for example reduction in defence spending during the period of peace).

28. In addition to the measures taken to make parastatals self-financing, efforts should be made to limit their recurrent expenditures. This require their efficient management by recruiting competent, dependable and conscious administrators. Subsidies should only be provided in a selective manner, namely to such sectors as health, education, selected agricultural items like fertilizers, equipment extension services, productive small-scale industries and the rehabilitation of existing structures in the assumption that these transfer costs will be recouped from the increased revenue from the taxation of farm produce, the increased productivity of the labour force and the overall higher growth and transformation of the economy.

4.2 Mobilisation of Household Savings

29. The extremely low level of per capita income in the majority of African countries with the bulk of the population far below minimum standards of living and in subsistence sectors is the principal reason for low household savings in Africa. Forced savings charged on incomes in the form of education tax, health tax and state pension schemes into which household wage and salary earners may pay a portion of their incomes with matching contributions by employers could be considered as inevitable measures for resource mobilisation. Attention may be drawn to the need for formulating appropriate incomes and pricing policies for the generation of additional revenues for development. Among these policies should feature the need for narrowing salary and wage differentials between country and town. For example in some African countries the ratio of public sector wages to the income of a peasant runs 20:1.

30. Experiences show that even the poor can save. The saving potential of the household sector is less than fully exploited and the development of financial institutions particularly in the rural areas and the insurance of their accountability can help in bringing about a higher saving rate and a better utilisation of the existing flow of savings. There is urgent need to tap potential savings at all levels of society. The hidden and often hoarded reserves of poor rural communities can be tapped through the expansion of rural banking, mobile banks, post office savings, encouragement of local thrift and cooperative societies, rural saving campaign, etc. The discouragement of conspicuous consumption through taxation (e.g. entertainment tax) and other measures should also dovert resources from consumption to savings. Job creation that raises household income levels will also increase the capacity to save.

4.3 Mobilisation of Corporate Savings

31. Although the size of indigenous private corporate sector in Africa is still small, profits generated by these productive private enterprises, both national and foreign, constitute important sources for the mobilisation of domestic resources. Where private enterprises are efficient enough to generate profits and when these profits are used for creating additional productive capacities, further mobilisation of domestic resources takes place. This argument extends to most economic activities including foreign and domestic trade. Profits from such activities are potential sources of domestic resource mobilisation.

32. Obviously, this source and method of resource mobilisation has greater significance in countries that have brought industry, trade and other economic activities under public control and have helped increase the low capacity utilization that is recorded everywhere in Africa, and which, in turn, results from the small size of market, inedaquate supply of raw materials and spare parts as well as deficiencies in managerial capability. Foreign transnational corporations should be asked either to reinvest directly their profits or to lend their surpluses to the public, household or other corporate enterprises in the country for channelling to productive investments opportunities.

4.4 Human Resource Mobilisation

33. Another broad area of priority attention for bringing human resources into actively productive use is the vast pool of under-employed and unemployed labour. A number of African countries are rich in natural and human resources. The resources of unutilized arable land, estimated at over 90 per cent, as well as of labour, can only be considered as vast reservoirs determining the mobilisation of resources. The exploitation of natural and human resources provide the real premises of a country's social and economic development. These real resources can be mobilized on a large scale to satisfy infrastructural

needs such as roads, water works and bridges and services such as schools, clinics, housing and related services. Efforts must be made by African countries to mobilize unproductive and underutilized labour in rural and urban areas (the example of Rwanda, UMUGANDA, and Ethiopia is a start in this direction). Co-operative self-help and self-financing schemes should be promoted and credit facilities should be made available to supplement and encourage such efforts.

34. Substantial savings, both in cash and in kind, concealed in rural labour can thus be utilized to finance the recurrent and capital costs of development projects and programmes. The army and, during vacation times, students should be mobilized to supplement rural labour for the construction of the much needed social and physical infrastructures (schools, hospitals, bridges, feeder roads, etc.) To drive full advantage from these resources, communities must be convinced that development projects and programmes are in their best interests and are made to respond to their needs and conditions.

4.5 Financial Leakages

35. The decline in the domestic savings ratio during the 1980s and the resulting widening of the saving gap have further exacerbated by the decline in the foreign exchange availability which was caused by the decline in demand for and dramatic fall in the prices of commodities exported by the African countries. Further resource constraints were imposed by the growing size of resource outflow arising from real and financial leakage and debt services at the same time that the resource inflows in real terms have stagnated or fallen. The real and financial leakages arose principally from numerous sources, notably those arising from: international trade transactions such as over-invoicing of imports and under-invoicing of exports; service payments such as insurance, tourism, investment income; and capital flight. The over-invoicing of imports and the under-invoicing of exports are particularly important sources of illegal appropriation of foreign exchange and its retention abroad.

36. More seriously is import over-invoicing where the various stages of processing and industrial classification allow more maneuverability. Multi-national oligopolies in particular take advantage of their vertical integration and as such benefit through the usual practice of transfer pricing and avoid taxation through intra-firm transactions. Another important source of financial leakages arises from the weaknesses in the domestic services sectors in the form of payments for services like shipping, insurance, etc. This together with such items as foreign travel and tourism drain the African economy out of critically needed resources and as such aggravate the balance of

payments position. 5/

37. A "capital flight" has become a serious problem of the mobilization of financial resources. Although no firm estimates are as yet available for the African region, there is general evidence to suggest that illegal outflows are large and growing rapidly. 6/

38. Therefore, radical measures should be taken to minimize the volume of external financial leakages arising from illegal over-invoicing of imports and under-invoicing of exports which result in the outflow of substantial resources from African countries. African governments should vigoriously pursuit the policies for restructuring their economies such that greater dependence is placed on the domestic sector through the maximum use of domestic resources and potential in meeting local needs. Closely related to this is the need to stamp out corruption, indiscipline and inefficiency in the public sector. Where restrictive procedures on exchange control, imports, etc. have to be adopted, these should be properly streamlined so that loopholes are minimized. Monetary reforms,confidence in the capacity to maintain the exchange rate, the insurance of safety of capital, the economic stability, the liberalization of national banks so that they can offer financial services with competitive risks and returns, etc. might bring about a reversal of capital flight and facilitate capital repatriation. Likewise, given the mobility of factors, human capital would not migrate if it receives a competitive market wage and job security. Thus, "capital flight" and "brain-drain" ought to be viewed as a sympotom of underlying economic problems of underdevelopment rather than as the source of the problems.

5/ In an ECA study entitled: "Financial leakages in Africa" (SERPD/WLAE/83/2), Addis Abeba December 1982, it has been estimated that in 1979, financial leakages due to illegal activities in official merchandise trade alone amounted to US$5.5.billion i.e., US$3.6 billion on imports plus US$2.9 billion on exports or 4.2 per cent of the total value of trade marchandises. Further invisible costs to African countries were over US$5.0 billion for shipping, nearly US$2.0 billion for insurance and unremitted package tour receipts were over US$1.0 billion. The overall financial leakages amounted to about 30 per cent of foreign aids in 1979.

6/ Several studies on this subject reveal that private capital outflow from developing countries in general runs from $50 billion to $200 billion or higher over the past ten years. For individual developing country, the estimates range from $10 to 20 billion or more depending on the definition of capital flight adopted. This occurs particularly in the highly indebted countries of Latin America, i.e. Argentine (capital flight stock was $30.6 billion in 1984), Brazil ($10.6 billion), Mexico ($40.1 billion), Venezuela ($25.9 billion), etc. Taking the World Bank definition of capital flight (=change in debt + net foreign reserves), the domestic capital outflow from Africa as a whole can be put at $38.6 billion in 1986 and $20.2 billion in 1987. Estimates of this magnitude support the view that if capital outflows from developing countries were to be reduced or reversed, the adjustment to the debt burdens of these countries could be eased and domestic resources for investment would be increased substantially. For more detailed analysis, see Robert Cumby and Richard Levich, "On the Definition and Magnitude of Recent Capital Flight" in D.R. Lessard and J. Williamson (ed.) Capital Flight and Third World Debt, (Washington D.C.: Institute for International Economics, 1987), pp. 27-78.

4.6 Efficient Resources Allocation

39. Once the resources have been mobilised they need to be allocated into proper development channels which can generate rates of returns that not only cover their recurrent costs, but also result in surpluses which can then be mobilised for further investment opportunities. The proper management of the limited human, physical and financial resources has been the major argument behind the use of the competent machinery for efficient resources allocation, be it market mechanism or centrally planned mechanism. The analysis of investment allocations indicates that in the majority of the African countries until recently a disproportionately large portion went for purposes which are not directly productive (services sectors mainly) and that a relatively small proportion was allocated to the productive sectors (agriculture, industry and construction).

40. It hardly needs stressing that with scarce resources and pressing needs, it is essential that a rational and systematic approach should be used in resource allocation. A critical element in this regard is project preparation and appraisal covering the full range of financial, economic, technical and organisational conditions necessary to achieve the objective of efficient resources allocation. To ensure the efficient use of scarce resources, the use of economic prices in cost-benefit analysis would be desirable. All projects and programmes should be subjected to vigorous analysis of their costs and benefits to the country and such analysis should indicate financial and economic internal rates of return which are the basic criteria for project selection and appraisal. African governments would thus need to build up and strengthen national capabilities to conduct such project studies and analysis.

V. FEASIBILITY OF ACHIEVING 25-30 PER CENT SAVINGS RATIOS IN THE 1990s

41. The increase in savings through the full implementation of the above policy measures for resource mobilisation is based on the assumption that the African countries will endeavour to achieve the medium and long-term objectives stated in the Lagos Plan of Action (LPA) and the Final Act of Lagos (FAL), which include inter-alia the alleviation of mass poverty and improvement in the standard of living of African people, the adoption of the strategy for self-reliant and self-sustained development, the necessity to increase the output of the productive sectors (namely food and agricultural and industrial output), the desirablity of attaining substantial increase, if not doubling of, per capita income by the year 2000, the expansion of intra-African trade and cooperation, and the establishment of mutually beneficial and equitable relations between African countries and the rest of the world. The doubling of per capita income by the year 2000 implies that GDP at constant prices should grow at least twice as high as the rate of growth of the population.

42. This requires a growth rate in GDP of 7 percent per annum for Africa as a whole during the period 1990-2000. This growth rate was obtained from the extrapolation of the GDP simulated for the various income subgroups of African countries, namely the least developed countries which were projected to grow by 5.9 per cent yearly, the non-least developed countries projected to grow by 6.5 and the major exporting countries by 8 per cent yearly.7/. In addition, to attain this 7 per cent growth target, major efforts would be required to expand the major productive sectors: agriculture would have to increase by at least 4 per cent per annum during 1990-2000, manufacturing would have to expand at 9.5 per cent yearly and mining by about 5.8 per cent per annum 8/.

43. The target growth of real GDP envisaged for Africa as a whole would have to be accompanied by a growth of 7.8 per cent yearly in investments and this will raise the investment share in GDP to 30.8 per cent by 2000 as compared with the average of 17.3 per cent during 1965-1986. Also such an increase is expected to be accompanied by a significant increase in the efficiency of capital; that is, the overall incremental capital-output ratio (ICOR) would be maintained at around 4.4:1 in the 1990s as against the average ICOR of 5.0:1 in the 1980s. To realize this investment, domestic saving would have to be increased and a high saving rate of at least 23.1 per cent would have to be achieved by the year 2000 as compared to the average of 17.3 per cent obtained in the period 1965-1986. This savings rate hides, however, the reality of disparities among income groups; the efforts required to increase savings by each income group of the African countries are shown on Table 3 below.

7/ See Table 3.

8/ The 7 per cent average annual growth in GDP for developing Africa as a whole would also entail relatively high expansion in the infrastructural sectors namely construction, energy and transport which were projected to have to grow by 9 per cent, 8 per cent, 9.8 per cent respectively and services are projected to increase at an average annual rate of about 7.6 per cent over the entire 1990-2000 period.

Table 3: Required Savings Efforts in the Planned Scenarios

Group of countries	Periods (a)	GDP growth rate per cent (b)	Investment		Saving Rate as % of GDP	Import as % of GDP	Export as % of GDP	Saving gap as % of GDP	Trade gap as % of GDP
			Growth rate %	Rate as % of GDP					
Least Developed Countries(c)	1985-88	3.5	4.7	13.9	4.7	22.1	17.4	9.2	4.7
	1990	3.6	4.7	13.7	10.5	22.5	16.9	3.2	5.6
	1995	5.9	6.9	14.1	11.01	23.2	17.5	3.1	5.7
	2000	5.9	6.9	14.4	11.2	23.7	17.9	3.2	5.8
Other Developing Countries(d)	1985-88	2.7	5.0	14.6	18.9	28.9	33.5	4.3	4.6
	1990	4.0	5.3	21.0	20.5	28.9	35.1	0.5	6.2
	1995	6.3	9.6	25.3	22.5	36.0	33.7	2.8	2.3
	2000	6.4	8.9	28.7	28.0	41.4	31.7	0.7	9.7
Major Oil Exporting Countries(e)	1985-88	-0.3	7.5	20.5	28.4	44.8	17.1	-7.8	27.7
	1990	2.5	7.0	43.3	26.5	47.4	21.4	16.8	26.0
	1995	7.7	5.5	41.3	28.0	48.0	24.3	13.3	23.7
	2000	8.1	6.5	38.7	30.0	47.7	27.1	20.4	20.6
Developing Africa as a whole(f)	1985-83	2.0	5.7	17.3	17.3	32.5	21.5	0.0	11.0
	1990	4.5	5.0	26.4	17.4	35.0	22.5	11.0	12.5
	1995	6.8	7.9	30.0	20.5	37.8	23.6	9.5	14.2
	2000	7.0	7.5	30.8	23.1	39.6	24.8	7.7	14.8

Source: ECA Secretariat provisional estimates and projections

(a) The growth rates concern the periods 1988-1990, 1990-1995, and 1995-2000;

(b) At constant 1980 market prices;

(c) The African least developed countries in the sample include Botswana, Benin, Burundi, Burkina-Faso, Cape Verde, Central African Republic, the Comoros, Chad, Ethiopia, Gambia, Guinea, Guinea-Bissau, Equatorial Guinea, Lesotho, Malawi, Mali, Rwanda, Sao Tome and Principe, Somalia, Sudan, the United Republic of Tanzania, Uganda, Sierra Leone, Togo;

(d) The Non-least developed countries include Angola, Congo, Egypt, the Ivory Coast, Ghana, Djibouti, Liberia, Kenya, Madagascar, Mauritius, Mozambique, Senegal, Seychelles, Swaziland, Zimbabwe, Zaïre, Zambia, The United Republic of Cameroon;

(e) The major oil-exporting countries are Algeria, Gabon, The Libyan Arab Jamahiriya and Nigeria;

(f) Developing Africa = c + d + e.

44. Another very important consideration concerns the projection of the LDC's saving and investment rates which are far below the regional average level. It was believed that it would be unrealistic, given the large consumption needs of these countries, to assume a drastic increase in the level of domestic savings whose share on GDP was projected to hump from 4.5 per cent in 1985-1988 to around 11 per cent in the 1990s. This imply that the LDCs have to make tremendous efforts, if not major sacrifices, to increase domestic savings at the average annual rate of 6 per cent during the 1990s to be close to the projected investment growth rate of 6.9 per cent. This also assumes that there is an improvement in the incremental capital output ratio in these countries from 3.1 in the base year to about 3.1 in the 1990s, otherwise, the resource gap would widen substantially and much higher inflows of external assistance would be necessary.

45. For the other developing countries - non major oil exporters - the planned scenario assumes that, unlike in the past, domestic savings would be used in the future to increase investment substantially and that the share of investment will rise from 14.6 per cent to 25.7 per cent in the year 2000, which will be almost financed by domestic resources, leaving only a small resource gap of 0.7 per cent of GDP. Since some of the countries in this group have already some industrial base, exports, particularly of manufactured goods, could be pushed up and these countries could strive towards a certain type of self-sustained growth.

46. Finally, the scenario assumes that the major oil-exporting countries would increase their exports in real terms at growth rate of 10 per cent and the ICOR will decrease from 5.7:1 in 1985-1988 to 4.9:1 in the 1990s so that the substantially high level of investment recorded in the late 1970s and early 1980s which overheated their economies will be reduced and serious efforts will be made to increase savings rate to reach about 30 per cent of GDP by 2000, leaving a resource gap of 3.7 per cent. It is also assumed that their import elasticity will be reduced to 1 by 2000 as, compared to the historical average elasticity of 2.4 in the 1970s and 1980s, particularly imports of goods.

47. At the projected investment rate of about 30.8 per cent of GDP in 2000, the projected saving rate would still leave a relatively high gap of about 5 per cent of GDP for Africa as a whole which implies that an even higher saving rate of over 25 per cent of GDP should be aimed at through full implementation of policy measures outlined previously. An improvement in the efficiency of capital is of great importance, especially for these countries like LDCs which still have a lot of consumption needs and cannot in the short-run reduce their consumption rates drastically. Yet it was found that the trade gap would be the dominant gap and hence increased savings would have to be accompanied by appropriate policies so as to avoid the frustration of domestic savings.

Table 4 : Projected Feasible Savings as a Percentage of GDP

Group of Countries	1990-1995		1995-2000	
	Historical Trend Scenario	Planned feasible Scenario	Historical Trend Scenario	Planned feasible Scenario
Least Developed Countries	4.5	11.5	5.0	11.2
Non-Least Developed Countries	18.0	22.5	21.0	26.0
Major Oil-Exporting Countries	20.0	28.0	24.0	30.0
Developing Africa as a whole	14.2	20.5	16.7	23.1

Source: ECA Secretariat provisional estimates.

VI. CONCLUSIONS

48. The substantial structural change of the African economies has not been achieved in the past because of (a) the failure to mobilize domestic resources for development, (b) the critical and continuous dependence of structural transformation on external factors, and (c) the occurence of deep seated crisis (drought and desertification) beyond Africa's control. These factors among others diverted development from its tune path. Thus, it seems that a successful and genuine economic and social self-sustainment and structural transformation in Africa to be realizable in the 1990s would depend on the expeditous mobilization of domestic resources and their efficient allocation so as to achieve an increasing degree of internalisation of the factors of production (including technology) and financial autonomy as well as viability.

49. The envisaged increase in domestic resources to attain the maximum growth of 7 per cent per annum for Africa as a whole as stated in the LPA requires tremendous efforts and sacrifices on the part of the African Governments, and people and the creation of an enabling environment. It is of paramount importance, that the conditions and instruments for the mobilization of additional resources from voluntary private saving (households, small business and communities) should be created, with particular emphasis given to the large agricultural subsistence sector. The development of financial institutions in the form, inter-alia, of savings banks, co-operative societies, commercial banks, pension offices and insurance companies should help in bringing about both a higher saving rate and a better utilization of the flow of resources.

50. As was projected in this paper, the achievement of a 7 per cent growth of GDP yearly during the 1990s would require an investment rate of about 30.8 per cent if the ICOR is maintained at 4.4:1. But in view of the fact that more than half of the African countries are in the LDC category, the projected increase in the domestic resources mobilization can only reach about 23.1 per cent of GDP by the year 2000 for Africa as a whole as compared to 17.3 per cent in the 1985-1988 period. But if a successful savings mobilization programme is initiated by the government along with the lines of the policy mix suggested in this paper which has to be especially directed towards the optimization of the public sector, household and corporat savings and more efficient allocation to productive investment, a saving rate of 25 per cent or more can be feasible for the 1990s. This will reduce the saving gap to the manageable level of less than 5 per cent, to be financed by external aid. As there are no general hard-and-fast rules for optimum saving mobilization, each country constitutes a special case requiring individual policy instruments.

VI. CONCLUSIONS